

SAPC 5263

25 JUN 1956

MEMORANDUM FOR THE RECORD

**SUBJECT: Contracts with Hycon Corporation - Project
AQUATONE**

1. In the initial phase of Project AQUATONE, Hycon Manufacturing was not a prime contractor. The concept of AQUATONE was proposed by the Land Committee based on Lockheed's claims for performance of a high-altitude plane. It was the Land Committee that developed the theory of tying this performance to aerial photography, in which connection they called on Mr. Baker, an outstanding aerial camera designer and expert.

2. The first general meeting to consider this Project was held in the office of Mr. Trevor Gardner, Assistant Secretary of the Air Force, and present were the representatives of the proposed prime contractors. I was introduced to Mr. Perkin, President of Perkin & Elmer, who stated he understood they were going to produce the required cameras according to Mr. Baker's design and specifications. I agreed to meet him in New York for discussion of contracts and did so a few days later. At that time, he indicated that while Perkin & Elmer was capable of producing the optical equipment, it was its custom to subcontract the engineering work and that it proposed to arrange for Hycon to do the engineering. I said this was perfectly satisfactory to me as we had no particular concern in connection with its subcontracts except as to their capability to do the work, maintenance of security, and compliance with the terms of our prime contract with Perkin & Elmer.

3. As the scope of the new work developed, the portion allocated to Hycon Manufacturing Corporation became so large that we considered the possibility of making it a prime contract also. However, in view of the developmental work to be done on the

equipment which was the responsibility of Perkin & Elmer, it was decided that Hycon should be a subcontractor to Perkin & Elmer so the latter could satisfactorily assure the necessary supervision of the entire development and production. Work under this arrangement has proceeded well and the required cameras were produced on a timely basis, considering the unique requirements and the equipment is presently performing according to specifications. The prime contract in practice has the elements of a cost plus a fixed fee so far as Perkin & Elmer is concerned, and the contract administration is well under control. The subcontracted portion to Hycon Mfg. Corporation is an incentive type fixed price, subject to redetermination.

4. On completion of the CIA production phase, the Air Force requested CIA to enter into additional procurement for it on a reimbursable basis of additional planes of the same kind, equipped with identical camera equipment. The prime concern here for having CIA do this procurement was to maintain the elaborate security safeguards that had been thrown around the CIA portion of the procurement. CIA has, therefore, undertaken this additional procurement on behalf of the Air Force. In addition, CIA desires to procure additional units of some of the camera equipment as a result of additional requirements now known.

5. Since the major developmental work on the cameras had already been performed and the problem is primarily one of engineering and production, it appears desirable for the additional procurement to give up the prime contract with Perkin & Elmer and contract directly with the producer. The elimination of Perkin & Elmer, due to completion of the developmental work and the fact that the systems supervision type of work provided by Perkin & Elmer is no longer needed in the contemplated production phase, will result in a substantial reduction in cost.

6. CIA is fully aware of Mr. Gardner's departure from the Air Force and the fact that he has returned to his former position as President of Hycon Mfg. Corporation. For this reason, CIA is considering very carefully whether to continue with Hycon Mfg. Corporation, to negotiate with other producers, or to attempt advertising for bids. The last is eliminated on the grounds that security makes advertising completely unfeasible. In considering the possibilities of negotiating with other companies, the primary elements were speed, security, cost, and satisfactory performance. On all of these Hycon is a known quantity. It had demonstrated its

ability to meet urgent deadlines and to maintain very close security. Both of these requirements are vital. Other companies will have to obtain and study the specifications, consider problems of available personnel and tooling up requirement, and cost out the work. Such procedure is obviously time consuming and to perform the work a great many additional people would have to be informed of the classified information. Hycon Mfg. Corporation has turned out a very satisfactory product of a new and complicated design with which other firms are not familiar and good actual cost information is now available. Consequently, there is more assurance of satisfactory results by continuing with Hycon. As far as economy is concerned, Hycon not only has its complete drawings and specifications, it has the practical advantage of having put them into effect in its own shops. Consequently, all things being equal, on a cost plus a fixed fee or even on a negotiated fixed price basis, with provision for redetermination of fixed price, Hycon Mfg. Corporation would certainly be a more economical producer than any other company of equal qualifications starting fresh on the whole project.

7. Aside from the problems of security, rapid delivery and economy, the following pertinent points are valid. Factory overhaul will be required and Hycon Mfg. Corporation is preparing to furnish this support during FY 1957 and FY 1958. Spare parts will be required to be stocked for this purpose and it would not be economical for two suppliers to stock such parts and to furnish such services on two sets of the same equipment, and if one of the two is selected it will be difficult to assign responsibility for defects when supplier A is performing overhaul on supplier B's equipment. Hycon Mfg. Corporation is providing technical representative services to maintain and operate the equipment overseas and similar factors would apply as in the factory overhaul situation. It is necessary that a feed back of operational results be put up on an expedited basis so that fixes can be made as required. This problem is aggravated with equipment furnished by two suppliers since compatibility of equipment, original and modified is necessary. In general, a tremendous body of experience now exists at Hycon Mfg. Corporation in design experience, manufacturing experience, testing experience, and modification experience. To attempt to duplicate or match this body of experience in a period of eight months appears to be a waste of manpower facilities and effort.

8. Above all it is important to keep in mind that the camera work is but part of an integrated system, all of whose parts are interrelated so that any change in one necessitates readjustments all along the line. This requires the closest team work between the

various manufacturing companies concerned, and it would be extremely detrimental to break up the team at this time when it is working so smoothly and interject a new and foreign element.

9. Despite the fact, therefore, that Mr. Gardner had been one of the Government employees who participated in the formulation of the Project and is now connected with one of the companies holding one of the Government contracts under the Project, there seems no valid reason why CIA should not continue to contract with Hycon Mfg. Corporation. On the contrary, there are very valid reasons why CIA should have Hycon Mfg. Corporation do this particular work on the best terms that the Government could negotiate. I, therefore, believe that it is in the best interests of the Government to execute an appropriate contract with Hycon Mfg. Corporation.

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